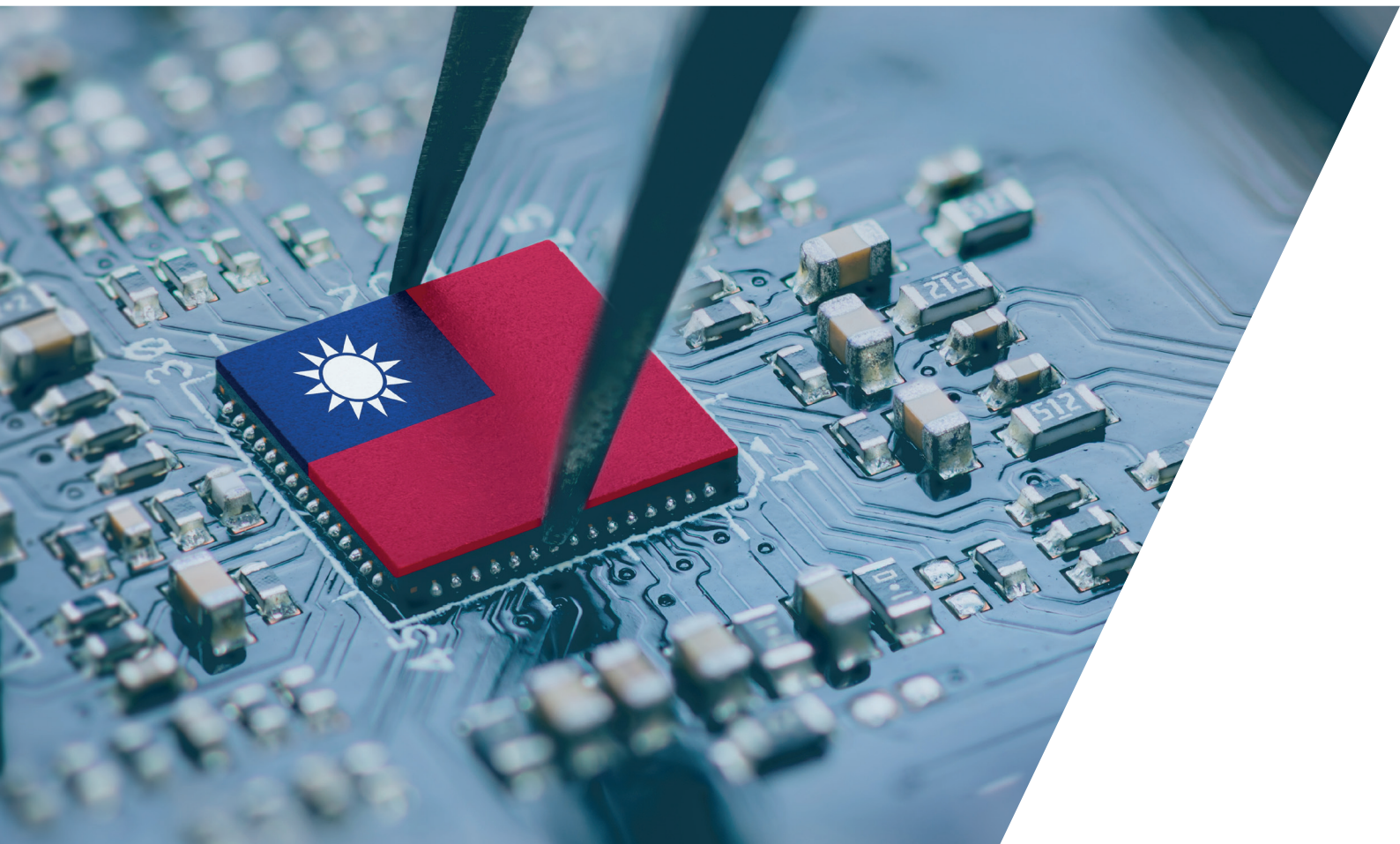


A VITAL PARTNERSHIP: HOW STRENGTHENED UK-TAIWAN TIES CAN HELP MAINTAIN STABLE CROSS-STRAIT RELATIONS

BY DARREN G. SPINCK



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Mr Spinck authored the July 2022 and May 2023 HJS reports "Securing the Strait: Engaging Taiwan in the UK's Indo-Pacific Tilt" and "Stronger Together: How US-UK Collaboration Can Answer China's Growing Geopolitical Ambition"; along with Dr Robert Seely, MP, he also co-authored the October 2022 HJS report "A New Era for UK Policymaking: An Economic Denial Strategy in the Indo-Pacific".

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Executive Summary

The success of the United Kingdom's post-Brexit Indo-Pacific tilt and its security and economic interests throughout the entirety of the region are increasingly dependent on maintaining stable cross-Strait relations between Taiwan and the People's Republic of China (PRC). Any change in the fragile status quo that endures in the Taiwan Strait would have a ruinous impact on the region and, resultantly, on the national interests of the United Kingdom.

Taiwan is a key focal point of the region, both economically and strategically, and any conflict resulting from Beijing attempting to forcibly reunify China and Taiwan would lead to upended sea and air trade routes, disrupted global supply chains and, potentially, the destruction of Taiwan's semiconductor foundries which produce 90% of the world's advanced chips, the brains of all modern electronic equipment. A semiconductor shortage alone would be "catastrophic" to the world economy, according to a Rhodium Group analysis on the economic disruptions of a Taiwan conflict.

A PRC invasion of Taiwan, a thriving democracy, would allow the People's Liberation Army Navy (PLAN) to project power past Taiwan in the First Island Chain and north toward Japan, a key UK security partner, and the Second Island Chain, which includes US territory. Forced reunification of Taiwan would have a catastrophic human toll as well, with the Pentagon estimating a death toll of approximately 500,000 should a Taiwan conflict occur.

China's People's Liberation Army (PLA) conducted its largest military training exercise east of Taiwan in September 2023, with the *Shandong* and 20 other PLAN vessels in Indo-Pacific waters surrounding Japan, the Philippines and Taiwan. Regional experts believe the training simulated a blockade of Taiwan. During a single day of the training exercise, a reported 103 PLA aircraft flew over or near Taiwan, with Taiwan's Ministry of National Defense indicating that 40 PRC planes crossed the air defence identification zone (ADIZ).

A successful denial strategy in the Indo-Pacific, aimed at preventing a PRC-initiated cross-Strait conflict and/or preventing the PLA from attaining hegemonic control of regional shipping and air routes, will require ensuring Taiwan's Armed Forces are adequately armed and properly trained and that the UK and other Indo-Pacific partners modernise their militaries sufficiently and increase industrial base production.

As any continued UK commercial dependency on trade and investment with the PRC would allow the Chinese Communist Party (CCP) to maintain some leverage over London policymaking regarding Taiwan, the UK Government should take a cautious approach toward its commercial ties with China while hostilities in the region worsen.

As the UK continues its tilt toward the Indo-Pacific, British support for Taiwan is more critical than ever and relations should form a vital economic, security and cultural partnership. Through two-way trade and investment; an increased UK regional naval presence to ensure open trade routes; enhanced interoperability between the UK and its allies/partners; and diplomatic efforts with Beijing aimed at deconfliction, the UK-Taiwan partnership can better help shape a free and open Indo-Pacific.

Key UK policy recommendations for maintaining stable cross-Strait relations include:

- The House of Commons should consider mirroring the work done by the US House of Representatives Select Committee on the Chinese Communist Party and convene a select committee tasked with investigating the CCP's threat to the Indo-Pacific region and, by extension, the United Kingdom, its people and commercial entities, and British values.

- The UK, along with its European NATO allies, should share more responsibility for arming Ukraine, allowing Washington to focus more resources on arming the Taiwanese, forward positioning military assets throughout the Indo-Pacific, and denying the PLA from forcibly disrupting the cross-Strait status quo.
- The Government should encourage Taipei to increase spending on its own defence to at least 3% of Taiwan's GDP to help relieve pressures on the US, UK and other partners and to better help shoulder the burden of securing the Taiwan Strait.
- The UK should collaborate closely with its closest partner, the US, to develop policies to encourage Indo-Pacific partners to limit the export of key semiconductor production to China. In addition, other Government priorities to help ensure there are no disruptions to global semiconductor supply chains should be explored, including: securing alternative rare earth supplies needed for chip manufacturing; blocking CCP attempts to secure UK semiconductor manufacturers; encouraging Taiwan to better restrict the export of chips to the PRC for use in PLA military modernisation; and funding research facilities for semiconductor manufacturing and advanced/emerging technologies.
- The UK should limit capital outflows to key sectors of the PRC, restricting outbound British investment (pension funds, endowments, etc.) to prevent further subsidising of the PLA's military modernisation.
- The Government should clearly and unambiguously articulate that any attempts by Beijing to forcibly disrupt the cross-Strait status quo or end Taipei's self-governance would result in a reassessment of London's relationship with Beijing.
- Parliament should exercise caution in its designation or interpretation of Taiwan's sovereign status, as the existing status quo between Beijing and Taipei currently serves UK national interests. Encouraging Taipei to declare premature *de jure* independence would unnecessarily cross PRC red lines and threaten economic security interests of the United Kingdom and its closest trading partners.
- British International Investment, along with the UK's other Blue Dot Network steering committee partners, should work with Taipei and encourage an allocation of Taiwan's foreign currency reserves to a sovereign wealth fund to be used for funding regional infrastructure development projects.
- The United Kingdom should continue to advocate for Taiwan's inclusion in the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and the Secretary of State for Business and Trade and her Ministers should promote the benefits of the UK's membership, explaining to the British people that the trade organisation provides wider strategic benefits to the UK alongside economic growth.
- The UK Government should maintain clear deconfliction lines between the PLA and the British Armed Forces and should use its influence with the PRC and China's regional trading partners to ensure military-to-military communications between Washington and Beijing are maintained.

Contents

About The Henry Jackson Society	2
About The Centre for Indo-Pacific Studies	2
About the Author	3
Acknowledgements	3
Executive Summary	4
1. Introduction	7
2. Taiwan and Semiconductors.....	11
3. UK Indo-Pacific Tilt and a Secure Taiwan Strait	15
4. A Secure First Island Chain.....	18
5. Development Finance.....	20
6. Indo-Pacific Denial Strategy.....	23
7. Deconfliction.....	26
8. Recommendations	28

1. Introduction

The success of the United Kingdom's post-Brexit Indo-Pacific tilt and its security and economic interests throughout the entirety of the region are increasingly dependent on maintaining stable cross-Strait relations between the Republic of China (Taiwan) and the People's Republic of China (PRC). Any unilateral change in the cross-Strait status quo which has existed between Taiwan and the PRC since 1972 would have a ruinous impact on the economic and national security interests of the UK's people and commercial entities, its allies and partners, and would threaten global prosperity and peace. Due to the increasing economic interconnectedness between the UK and its partners in the region, London's interests vis-à-vis Taiwan go well beyond solely supporting the democratic aspirations of the Taiwanese people.¹ In line with the One China policy, the UK Government "does not recognise Taiwan as a state, nor does it maintain formal diplomatic relations with the island."² The UK Government and Parliament should therefore prioritise policymaking aimed at helping ensure Taiwan's continued self-governance allows Taiwanese authorities to help shape security and economic policy benefitting all UK partners in a free and open Indo-Pacific, not just the sometimes-narrow national interests of Taipei.

While Taiwan's leading presidential candidate, Democratic Progressive Party (DPP) nominee Lai Ching-te, has stated that he supports the cross-Strait status quo and will not rule out the possibility of dialogue with Beijing "without preconditions" should he win Taiwan's 2024 presidential election, the Chinese Communist Party's (CCP) intensifying belligerence in the region threatens the fragile regional stability.³ William Burns, the Director of the US Central Intelligence Agency (CIA), has warned that the intentions of Xi Jinping, the General Secretary of the CCP, toward Taiwan should not be "underestimated", while Xi has renewed calls for the PRC to "resolutely defend our national sovereignty, unity, and development interests".^{4, 5} A September 2023 Chinese military exercise that included the PRC's *Shandong* aircraft carrier and 20 other warships was the largest ever Chinese maritime war simulation, according to the Institute for National Defense and Security Research.⁶ China's regular incursions into Taiwan's airspace, the People's Liberation Army Navy's (PLAN) near misses with US naval ships, and a recent suspension (followed by an agreed upon resumption and then uncertainty) of military-to-military communication with Washington are concerning harbingers of the CCP's intentions in the region, unless the UK and other partners enact policies to better help secure the Taiwan Strait.^{7, 8, 9, 10}

¹ "Taiwan: Short Debate", UK Parliament, 3 March 2022, <https://hansard.parliament.uk/lords/2022-03-03/debates/F13CD877-CD88-4B5A-9ED8-450BA3D742E9/Taiwan>.

² John Curtis and Matthew Ward, "Taiwan: History, politics and UK relations", House of Commons Library, 17 August 2023, <https://commonslibrary.parliament.uk/research-briefings/cbp-9254/>, p.4.

³ Lai Ching-te, "My Plan to Preserve Peace in the Taiwan Strait", *Wall Street Journal*, 4 July 2023, <https://www.wsj.com/articles/my-plan-to-preserve-peace-between-china-and-taiwan-candidate-election-race-war-7046ee00>.

⁴ Michael Martina and David Brunnstrom, "CIA Chief warns against underestimating Xi's ambitions toward Taiwan", *Reuters*, 3 February 2023, <https://www.reuters.com/world/cia-chief-says-chinas-xi-little-sobered-by-ukraine-war-2023-02-02/>.

⁵ Ryan Woo, Jason Neely and Hugh Lawson, "China's Xi tells military to deepen war, combat planning, Xinhua reports", *Reuters*, 6 July 2023, <https://www.reuters.com/world/china/chinas-xi-tells-military-deepen-war-combat-planning-xinhua-2023-07-06/>.

⁶ Kathrin Hille, "China's navy starts largest-ever exercises in Pacific Ocean", *Financial Times*, 12 September 2023, <https://www.ft.com/content/88e2eeab-e464-4ec3-a17f-5417150c5350>.

⁷ "Taiwan ADIZ Violations", ROC Ministry of National Defense, 14 October 2023, <https://docs.google.com/spreadsheets/d/1qbfYFOVgDBJoFZN5elpZwNTiKZ4nvCUcs5a7oYwm52g/edit#gid=2015900050>.

⁸ Ben Blanchard and Laurie Chen, "US Navy shows Chinese warship's 'unsafe interaction' near Taiwan", *Reuters*, 5 June 2023, <https://www.reuters.com/world/us-navy-releases-video-chinese-warships-unsafe-interaction-near-taiwan-2023-06-05/>.

⁹ Yun Sun, "Why China Won't Talk With America's Military, Beijing Sees Silence as Leverage", *Foreign Affairs*, 21 July 2023, <https://www.foreignaffairs.com/united-states/why-china-wont-talk-americas-military>.

¹⁰ Courtney Kube and Carol E. Lee, "U.S.-Chinese military hotline hasn't been restored a month after Biden-Xi Summit", *NBC News*, 12 December 2023, <https://www.nbcnews.com/investigations/us-chinese-military-hotline-hasnt-restored-month-biden-xi-summit-rcna129137>.

Taiwan is vulnerable not only to kinetic military warfare, i.e., a People's Liberation Army (PLA) invasion of the island, but also to the threat of an economic blockade and other grey zone tactics (for example, cyber-warfare). A PRC economic blockade could force Taiwanese authorities to capitulate to CCP demands without the PLA ever firing a shot, as Taiwan maintains no more than an eight-day supply of natural gas and remains susceptible to a communications blackout should the PRC sever its undersea telecommunications cables.¹¹

As Taiwan is a key focal point of the region, not only economically but strategically within the First Island Chain, forced reunification by the PRC or, conversely, a declaration of *de jure* independence by Taipei and a resultant PLA invasion, would lead to sea and air trade routes being upended throughout the Indo-Pacific, the disruption of global supply chains and, potentially, the destruction of Taiwan's semiconductor foundries which produce 90% of the world's advanced chips, the brains of all modern electronic equipment.^{12, 13} The US House of Representatives Select Committee on the CCP has warned that an invasion of Taiwan would crash equity markets, lead to insurance premiums skyrocketing and decimate pensions savings.¹⁴

The economic impact of a conflict in the Taiwan Strait would dwarf the inflationary blowback from the war in Ukraine, with recent research estimating global markets would contract by US\$2 trillion.¹⁵ In addition to semiconductor production delays, trade in goods and services between the UK and Taiwan, totalling £8.6 billion for 2022, would slow or end completely, including in the manufacturing and energy sectors.¹⁶

An invasion of Taiwan would allow PLAN to project power past Taiwan in the First Island Chain and north toward Japan (a key UK security partner which has steadfastly supported AUKUS and has collaborated with the UK and Italy on building an advanced fighter jet through the Global Combat Air Programme) and the Second Island Chain, which includes US territory.^{17, 18, 19} With 60% of the world's population living in the Indo-Pacific, and the region expected to become the primary engine of global economic growth within the next three decades, the CCP's success in forcibly reunifying with Taiwan would cement the PRC as a hegemonic military power in the Indo-Pacific and allow Beijing to exert immense economic and political policy leverage over other UK partners in the region.²⁰ As noted in a recent report from the US House of Representatives Select Committee on the CCP, a successful PRC invasion would

¹¹ Yingtai Lung, "In Taiwan, Friends Are Starting to Turn Against Each Other", *The New York Times*, 18 April 2023, <https://www.nytimes.com/2023/04/18/opinion/taiwan-china-war-us.html>.

¹² Darren Spinck and Liam Gibson, "Securing the Taiwan Strait Will Require More Than Arms", *The National Interest*, 4 November 2022, <https://nationalinterest.org/feature/securing-taiwan-strait-will-require-more-arms-205712>.

¹³ "Taiwan's dominance of the chip industry makes it more important", *The Economist*, 6 March 2023, <https://www.economist.com/special-report/2023/03/06/taiwans-dominance-of-the-chip-industry-makes-it-more-important>.

¹⁴ Chairman Mike Gallagher, "Systemic Risk: The Chinese Communist Party's Threat to U.S. Financial Stability", Opening Remarks, US House of Representatives Select Committee on the Chinese Communist Party Hearing, Transcript, 12 September 2023, <https://selectcommitteeontheccp.house.gov/sites/evo-subsites/selectcommitteeontheccp.house.gov/files/evo-media-document/9.12.23-new-york-opening-statement.pdf>, p.2.

¹⁵ Charlie Vest, Agatha Kratz and Reva Goujon, "The Global Economic Disruptions from a Taiwan Conflict", Rhodium Group, 14 December 2022, <https://rhg.com/research/taiwan-economic-disruptions/>.

¹⁶ Ben Blanchard, "Eyeing further deals, Taiwan signs new trade partnership with Britain", *Reuters*, 8 November 2023, <https://www.reuters.com/world/eyeing-further-deals-taiwan-signs-new-trade-partnership-with-britain-2023-11-08/>.

¹⁷ "Overseas Business Risk: Taiwan", Foreign Commonwealth and Development Office, 6 June 2023, <https://www.gov.uk/government/publications/overseas-business-risk-taiwan/overseas-business-risk-taiwan>.

¹⁸ "United States-Japan-Australia Trilateral Defense Ministers' Meeting (TDMM) 2023 Joint Statement", U.S. Department of Defense, 3 June 2023, <https://www.defense.gov/News/Releases/Release/Article/3415881/united-states-japan-australia-trilateral-defense-ministers-meeting-tdmm-2023-jo/>.

¹⁹ Sachin Ravikumar, Paul Sandle and Sarah Young, "UK, Japanese, Italian partners agree next steps for fighter jet", *Reuters*, 12 September 2023, <https://www.reuters.com/business/aerospace-defense/uk-japanese-italian-partners-agree-next-steps-fighter-jet-2023-09-12/>.

²⁰ "Building Business Connections in the Indo-Pacific", International Trade Administration, <https://www.trade.gov/indo-pacific-commercial-service#:~:text=With%2060%20percent%20of%20the,over%20the%20next%2030%20years>.

cause regional allies to question existing security commitments and allow the PRC to interdict support from the UK, US and other partners to other allies in the region.²¹

Forced reunification of Taiwan would have a catastrophic human toll as well, with high civilian casualty rates expected. The Pentagon has estimated a death toll of approximately 500,000 should a Taiwan conflict occur.²² With US naval commitments growing in the Persian Gulf and the Red Sea, the United States cannot be expected to solely shoulder the burden for securing the Taiwan Strait. As demonstrated by the recent Hamas military strike and barbaric terrorist attacks on Israel's civilian population, US naval assets are expected to remain in the region long-term to protect US interests, possibly evacuate American citizens and "deter regional powers."²³ Commitments from the United Kingdom and other partners and allies will be needed if CCP aggression in the Indo-Pacific is to be deterred. A protracted defence of Taiwan, should deterrence fail and the CCP order an invasion, would require humanitarian airdrops and the evacuation of potentially hundreds of thousands of civilians, including some of the estimated 1.7 million UK citizens who reside in the Indo-Pacific, including in Australia, Malaysia, New Zealand and Singapore, the UK's partners in the Five Power Defence Arrangements (FDPA).²⁴

The UK Government should also take a cautious approach toward its commercial ties with China while hostilities in the region worsen, as any continued commercial dependency on trade and investment with the PRC would allow the CCP to maintain some leverage over London policymaking regarding Taiwan. In the recent Intelligence and Security Committee (ISC) report on China, Chairman the Rt Hon. Sir Julian Lewis MP stated that China's intelligence services consider the issue of Taiwan independence a direct threat to CCP rule.²⁵ Therefore, if Taiwan's independence is considered an existential danger for continued CCP survival, the UK and its partners must take sufficient steps to counter the PRC's ability to forcibly reunify with Taiwan and not allow interconnectedness with China to cloud decision making over policy. Conversely, Parliament should not make any rash policy pronouncements which would prematurely encourage Taipei to declare *de jure* independence, without an ability for the UK and its partners to counter China's military adventurism. The Government has sent mixed signals on the UK's continued approach toward the PRC, with China being labelled an "epoch-defining and systemic challenge" and the former Foreign Secretary warning that the UK should not "pull the shutters down" on China, while the ISC, a statutory committee tasked with oversight of the UK intelligence committee, believes the approach toward China has been "inadequate".^{26, 27, 28}

²¹ "Ten for Taiwan, Policy Recommendations to Preserve Peace and Stability in the Taiwan Strait", The Select Committee on the Chinese Communist Party, <https://selectcommitteeontheccp.house.gov/sites/evo-subsites/selectcommitteeontheccp.house.gov/files/evo-media-document/ten-for-taiwan-final-with-cover-page-2.pdf>, p.4.

²² Nathalie Guibert, "If it invaded Taiwan, China would suffer the same logistical failures as Russia in Ukraine", *Le Monde*, 22 July 2022, https://www.lemonde.fr/en/international/article/2022/07/22/if-it-invaded-taiwan-china-would-suffer-the-same-logistical-failures-as-russia-in-ukraine_5991004_4.html.

²³ Nancy A. Youssef and Gordon Lubold, "U.S. Weighs Deploying Second Aircraft Carrier Group", *The Wall Street Journal*, 11 October 2023, <https://www.wsj.com/livecoverage/israel-hamas-war-gaza/card/u-s-weighs-deploying-second-aircraft-carrier-group-i4fMGkmj7mGmlQCNqWIW>.

²⁴ Ted Kemp, "New Foreign Secretary Cleverly says UK's strategic shift to Indo-Pacific is 'permanent'", *CNBC*, 29 September 2022, <https://www.cnbc.com/2022/09/29/uk-foreign-secretary-james-cleverly-says-shift-to-indo-pacific-is-permanent.html>.

²⁵ Chairman the Rt Hon Sir Julian Lewis MP and Intelligence and Security Committee of Parliament, "China", 13 July 2023, <https://isc.independent.gov.uk/wp-content/uploads/2023/07/ISC-China.pdf>, p.15.

²⁶ "Integrated Review Refresh 2023: Responding to a more contested and volatile world", Cabinet Office, 16 May 2023, <https://www.gov.uk/government/publications/integrated-review-refresh-2023-responding-to-a-more-contested-and-volatile-world/integrated-review-refresh-2023-responding-to-a-more-contested-and-volatile-world>.

²⁷ Matt Honeycombe-Foster, "UK foreign secretary: Don't 'pull the shutters down' on China", *Politico*, 19 April 2023, <https://www.politico.eu/article/uk-china-foreign-secretary-cleverly/>.

²⁸ Michael Holden and Andrew Macaskill, "British approach to China risk 'completely inadequate', committee says", *Reuters*, 13 July 2023, <https://www.reuters.com/world/uk-governments-strategy-china-risk-completely-inadequate-committee-2023-07-13/>.

As the UK continues its tilt toward the Indo-Pacific, British support for Taiwan is more critical than ever. Relations between the UK and Taiwan should form a vital economic, security and cultural partnership. Through two-way trade and investment; an increased UK regional naval presence to ensure open trade routes; enhanced interoperability between the UK, its AUKUS partners and other regional allies; and diplomatic efforts with Beijing aimed at deconfliction, the UK-Taiwan partnership can better help shape a free and open Indo-Pacific.

2. Taiwan and Semiconductors

During the COVID-19 pandemic, the UK and the rest of the world witnessed how global shocks to the supply and demand of semiconductors impacted the world economy. Taiwan manufactures 60% of all semiconductors, and 90% of the most advanced chips.²⁹ Known as the “brains of modern electronics”, the chips that Britons rely on daily are used for smartphones, laptops, healthcare equipment, military hardware, car electronics including anti-lock brakes and global Internet infrastructure.^{30, 31} Taiwan Semiconductor Manufacturing Company Limited (TSMC), the world’s largest semiconductor foundry, produced 15 million 12-inch wafers in 2022, for 532 customers, including the UK’s ARM, AMD, Apple, Broadcom and Nvidia.^{32, 33}

As reported by *The Economist*:

The semiconductor industry is notoriously cyclical: gluts and shortages are not uncommon. But the pandemic has magnified the problem. Workers stuck at home [during the pandemic] rushed to buy kit. Personal-computer sales rose by 11% last year... Data-centre demand spiked as people turned to video-calling, video-streaming and video gaming... Other events have compounded the problem.³⁴

However, despite efforts by the US to re-shore semiconductor manufacturing to America, some experts believe semiconductor supply shortages cannot be quickly addressed since demand is unpredictable as demonstrated during the pandemic.³⁵ It took more than a year from the signing of the \$52.7 billion US CHIPS and Science Act, designed to accelerate the production of chip manufacturing facilities in the US, for the federal subsidies to start being doled out; the first grant was awarded to BAE Systems in December 2023.^{36, 37} Because of a dearth of skilled workers in the United States to produce semiconductors, Taiwan’s TSMC announced that production at its US-based facility in Arizona will not commence until 2025.³⁸ More troubling are reports that, despite US and allied efforts to curtail the PRC’s ability to attain chip manufacturing dominance, Taiwanese semiconductor companies are now under investigation by Taiwan’s Ministry of Economic Affairs for selling “sensitive technologies and equipment” to the PRC.³⁹

²⁹ “Taiwan’s dominance”, *The Economist*.

³⁰ “Introduction to Semiconductors”, AMD, <https://www.amd.com/en/technologies/introduction-to-semiconductors#:~:text=Semiconductors%3A%20The%20Brains%20of%20Modern%20Electronics&text=In%20most%20cases%2C%20it%27s%20a,transportation%2C%20energy%20and%20other%20industries>.

³¹ Shiona McCallum, “What are semiconductors and how are they used?”, *BBC News*, 3 August 2023, <https://www.bbc.co.uk/news/technology-66394406>.

³² “Company info”, TSMC, https://www.tsmc.com/english/aboutTSMC/company_profile.

³³ McCallum, “What are semiconductors”.

³⁴ “Why is there a shortage of semiconductors”, *The Economist*, 25 February 2021, https://www.economist.com/the-economist-explains/2021/02/25/why-is-there-a-shortage-of-semiconductors?ppccampaignID=18151738051&ppcadID=&utm_medium=cpc.adword.pd&utm_source=google&ppccampaignID=17210591673&ppcadID=&utm_campaign=a.22brand_pmax&utm_content=conversion.direct-response.anonymous&gclid=Cj0KQCjwvL-oBhCxARIsAHkOiu3AY8zRCD14VIGKQtqdW7BJLZAXsMPAFef0baA1-xlDjeVLixUfR1gaAornEALw_wcB&gclidsrc=aw.ds.

³⁵ Rakesh Kumar, “We’re going to see another chip shortage—despite the CHIPS and Science Act”, *Fortune*, 11 March 2023, <https://fortune.com/2023/03/11/chips-and-science-act-semiconductor-shortage-rakesh-kumar/>.

³⁶ Kristina Partsinevelos and Cait Freda, “Semiconductor makers wait for checks one year after Biden signs CHIPS Act”, *CNBC*, 9 August 2023, <https://www.cnbc.com/2023/08/09/chips-act-semiconductor-makers-wait-for-checks-one-year-on.html>.

³⁷ Ana Swanson, “Biden Administration Chooses Military Supplier For First Chips Act Grant”, *The New York Times*, 11 December 2023, <https://www.nytimes.com/2023/12/11/business/economy/biden-chips-bae-systems.html>.

³⁸ Annabelle Liang, “TSMC: Chip giant delays Arizona production in blow to Biden”, *BBC News*, 21 July 2023, <https://www.bbc.co.uk/news/business-66264392>.

³⁹ Zen Soo, “Taiwan probes firms suspected of selling chip equipment to China’s Huawei despite US sanctions”, *Associated Press*, 6 October 2023, <https://apnews.com/article/taiwan-huawei-semiconductor-china-ed0bc13eb0ce588390ce1228765013f5>.

A Rhodium Group study estimates that existing global dependence on Taiwanese chips would result in an annual loss of US\$1.6 trillion in revenue should a PRC invasion or blockade of Taiwan result in a halt to semiconductor production in key industries (automotive microcontrollers, smartphone chips and processing units for PCs and servers).⁴⁰ As outlined by the US House Select Committee on the CCP, “Should a CCP invasion or other attack happen... the world’s supply of semiconductors... would be devastated, depriving Americans [and Britons] of the ability to maintain our critical infrastructure, innovate in transformative technologies, such as artificial intelligence, and produce airplanes, cars, and agricultural machinery.”⁴¹

Supply chain resiliency for the semiconductor sector is unquestionably in the UK’s national interest. The UK’s National Semiconductor Strategy clearly assesses the risk of hostile states – such as the PRC – acquiring a technical advantage of the semiconductor industry.⁴² The threat made by the chief economist at the China Center for International Economic Exchanges that the PRC would seize Taiwan’s TSMC if the US imposed “destructive sanctions” should have been a wake-up call to UK policymakers to better diversify chip production capabilities and link continued support for Taiwan with Taipei’s ability to implement export controls of key technologies.⁴³ US policymakers on the political left and right have suggested that the United States should destroy the TSMC plant if the PRC invades Taiwan, but the PRC may rethink the need for an invasion of Taiwan to seize TSMC if Taiwanese companies voluntarily fuel the CCP’s economic engine by sharing the means of production for semiconductors.^{44, 45}

Despite the risks of massive global semiconductor shortages should the cross-Strait status quo unravel, the UK’s semiconductor strategy does not seek to diversify the United Kingdom’s reliance on Taiwan for high-end chip manufacturing; instead, it seeks only to increase research and development (R&D), design and intellectual property for compound semiconductors. Alicia Kearns MP has warned that the Government’s failure to support the UK’s semiconductor industry “[puts] British business at risk as other nations seek to build greater resilience into their own supply chains.”⁴⁶

To defend UK national interests regarding semiconductors, British policymakers should implement five policies to ensure that the UK-Taiwan partnership safeguards unimpeded semiconductor production and allows for the diversification of chip supply chains elsewhere, to prevent global shocks arising from military conflict or other “black swan” events, as the coronavirus pandemic demonstrated.

First, the surest way to ensure there are no shocks to the global supply of semiconductors is to help maintain the cross-Strait status quo. Taiwan’s “Silicon Shield” will endure for the foreseeable future until the US, UK and other partners are able to ramp up production of high-end chips elsewhere. Maintaining the status quo means deterring a PLA invasion. That will require military modernisation if the UK and its allies are to compete with PLA defence advances. The UK and its AUKUS partners – the United States and Australia – should maintain

⁴⁰ Vest, Kratz and Goujon, “The Global Economic”.

⁴¹ The Select Committee on the Chinese Communist Party, “Ten for Taiwan”, p.3.

⁴² “National semiconductor strategy”, Department for Science, Innovation & Technology, 19 May 2023, <https://www.gov.uk/government/publications/national-semiconductor-strategy/national-semiconductor-strategy>.

⁴³ “Top Economist Urges China to Seize TSMC If US Ramps Up Sanctions”, *Bloomberg News*, 7 June 2022, <https://www.bloomberg.com/news/articles/2022-06-07/top-economist-urges-china-to-seize-tsmc-if-us-ramps-up-sanctions?sref=p8neHWIG&leadSource=uverify%20wall>.

⁴⁴ Brandon Weichert, “One Democrat Wants To Destroy The Global Economy In A U.S. – China War”, *19FortyFive*, 9 May 2023, <https://www.19fortyfive.com/2023/05/one-democrat-wants-to-destroy-the-global-economy-in-a-u-s-china-war/>.

⁴⁵ Elbridge Colby (@ElbridgeColby), “@sethmoulton is absolutely correct about this”, X, 6 May 2023, <https://twitter.com/ElbridgeColby/status/1654843037560844289?s=20>.

⁴⁶ Gerard B. Lyons, Zachary Spiro and Alicia Kearns, “Cashing in our Chips: How to strengthen the UK’s semiconductor sector”, Centre for Policy Studies, https://cps.org.uk/wp-content/uploads/2023/02/CPS_CASHING_IN_OUR_CHIPS.pdf, p.4.

freedom of navigation exercises through the Taiwan Strait, increase interoperability amongst forces, participate in joint training exercises to demonstrate resolve, and forward deploy naval assets to counter PRC ambitions throughout the region.

Maintaining the cross-Strait status quo is not a “one-way street”, however, and London should also discourage Taiwanese authorities from declaring *de jure* independence, which would be viewed by the CCP as crossing a red line. UK policymakers should also encourage Taiwan to increase its own defence spending to exceed 3% of GDP.

Supporting the current status quo of Taiwan’s *de-facto* independence and self-governance does not have to imply an unchanging status for Taiwan in its participation in regional and global forums. Rather, it will require the UK to support the integration of Taiwan into regional economic partnerships, to support Taipei’s participation in global governance forums, as well as to provide resources and expertise to allow Taiwan to defend itself.

Integrating Taiwan into international institutions where accession is not dependent on statehood is not a violation of the One China Policy or the present status quo. In fact, it is the exact stance that the UK already adopts on the integration of Taiwan within the wider international community in order to avoid crossing Beijing’s red lines.⁴⁷

Examples of this are seen with Taiwan’s accession to the World Trade Organization (WTO) and Asia-Pacific Economic Cooperation (APEC). It joined both as a separate customs territory. The same can be done with regard to Taiwan’s bid to join the CPTPP.⁴⁸

The most likely potential violation of Chinese red lines would be the UK’s provision of any arms or weapons to Taiwan. When the UK increased submarine part exports to Taiwan, the Chinese Foreign Ministry labelled it a “serious violation of the one-China principle”.⁴⁹ Under the Taiwan Relations Act, the US is bound by law to provide Taiwan with the means to defend itself and, whilst this angers China, it has been part of the status quo for decades. The UK attempting something remotely similar in an environment with a more belligerent and powerful China would undoubtedly increase tensions and cross red lines.

Second, UK policymakers should demonstrate political will and acknowledge the need for the UK to adequately diversify high-end chip production. By allowing Taiwan to continue manufacturing the majority of high-end semiconductors, the UK remains susceptible not only to global supply shocks, but also to political pressure from the CCP, which can use the tacit threat of the invasion of Taiwan as leverage over the United Kingdom’s policymaking. Despite a glaring need to ramp up diversified production of chips outside of Taiwan, Paul Scully, the Minister for Tech and the Digital Economy, has conceded Britain’s involvement in semiconductor manufacturing facilities.⁵⁰ Scully stated, “We are not going to recreate Taiwan in South Wales... It’s just not going to happen.”⁵¹ There are indeed limits on what the United Kingdom can do alone to replace Taiwan’s manufacturing expertise in this vital sector. However, the answer is not all or nothing, and the UK need not find an answer in isolation. The UK can work with its allies to build up some industrial capacity, targeted specifically at the commercial sector. It can

⁴⁷ Nigel Walker and John Curtis, “UK-Taiwan friendship and cooperation”, House of Commons Library, 7 February 2022, <https://commonslibrary.parliament.uk/research-briefings/cdp-2022-0031/>.

⁴⁸ Katherine Wei, “Taiwan says ‘risk’ to its Trans-Pacific trade pact application if China joins first”, *The Straits Times*, 24 September 2021, <https://www.straitstimes.com/asia/east-asia/taiwan-says-risk-to-its-trans-pacific-trade-pact-application-if-china-joins-first>.

⁴⁹ Andrew Macaskill and Elizabeth Piper, “Exclusive: UK approves increased submarine-related exports to Taiwan, risking angering China”, *Reuters*, 13 March 2023, <https://www.reuters.com/world/uk/uk-approves-increased-submarine-related-exports-taiwan-risking-angering-china-2023-03-13/>.

⁵⁰ Cristina Criddle, “UK chip sector cannot ‘recreate Taiwan in south Wales’, says tech minister”, *Financial Times*, 3 August 2023, <https://www.ft.com/content/7bb96cc9-eabe-43d8-a552-2107354c3ea0>.

⁵¹ *Ibid.*

develop strategic stockpiles, and protect higher-end technologies and processes, which are often developed and produced with partners.

Third, the UK and its partners must better secure rare earth supplies for the production of high-end chips. China announced in July that it was initiating restrictions on the export of gallium and germanium, rare earths used in chip manufacturing. The world is dependent on China for 67% of germanium and 98% of gallium production.⁵² Germanium ores are also located in the United States, Russia, Canada and Finland, while primary gallium is produced by Japan, Russia, South Korea, Germany and Kazakhstan. A smelter in Tennessee, USA, the only location in continental America where both germanium and gallium can be extracted, is seeking to fund an expansion to process the rare earths needed for everything from smartphones to wi-fi/bluetooth chips and radar systems. The UK and its partners cannot remain solely dependent on the political whims of the CCP for allowances of these rare earths and should encourage deregulation in partnering countries for mining and refining to ensure secure supply chains for these critical resources.

Fourth, the UK must continue to block attempts by the CCP to acquire chip manufacturers in Britain. The UK's National Security and Investment Act previously blocked Chinese-owned Experia's acquisition of Newport Wafer Fab; the Government must continue to remain vigilant for attempts by the CCP to use companies wholly or partially owned by PRC entities to acquire sensitive technologies which would undermine the national security interests of the UK and its closest partners. Instead of enforcing the existing law to restrict the acquisition of strategic UK assets by foreign actors adverse to British national interests, the Government "is considering relaxing strict national security takeover rules after... complaints from China."⁵³

Fifth, as the United States remains the undisputed security guarantor of the Indo-Pacific, the Government should communicate to Taiwanese authorities that technological cooperation between Taiwan and the PRC which could lead to advances in military technologies which could be used against US military assets and, by extension, UK Royal Navy ships and service members, will not be tolerated. Despite the US initiating strict export controls of advanced and emerging technologies, a report indicates that multiple Taiwanese technology companies are assisting Huawei to build chip plants in southern China after Taipei received a waiver from Washington for exporting technology to China after pledging it would not transfer to the PRC's military.⁵⁴ The Biden Administration's waiver is both dangerous and naïve, as the US Department of State has acknowledged the risks linked to the CCP's military-civil fusion programme contributing to China's aspiration of a "world class military" by 2049, while reports indicate that "Huawei has a history of linkages to the PLA" including collaboration with the PLA Strategic Support Force's Information Engineering University.^{55, 56} Continued support for Taipei initiatives on economic cooperation, defence training and other aid should be closely linked to export control policy that restricts the CCP's ability to obtain semiconductor technology from Taiwan.

⁵² Bailey Crane, "Innovation Lightbulb: Critical Minerals and the U.S.-China Chip War", Center for Strategic and International Studies, 14 July 2023, <https://www.csis.org/analysis/innovation-lightbulb-critical-minerals-and-us-china-chip-war>.

⁵³ Matthew Field, "Dowden to water down national security takeover rules after collapse in dealmaking", *The Telegraph*, 13 November 2023, <https://www.telegraph.co.uk/business/2023/11/13/rishi-sunak-dowden-national-security-takeover-rules-china/>.

⁵⁴ "Key Taiwan Tech Firms Helping Huawei With China Chip Plants", *Bloomberg News*, 4 October 2023, <https://www.bloomberg.com/news/articles/2023-10-03/taiwan-tech-companies-are-helping-huawei-build-a-secret-network-of-chip-plants?sref=p8neHW1G&leadSource=uverify%20wall>.

⁵⁵ "The Chinese Communist Party's Military-Civil Fusion Policy", U.S. Department of State, <https://2017-2021.state.gov/military-civil-fusion/>.

⁵⁶ Elsa B. Kania and Lorand Laskai, "Myths and Realities of China's Military-Civil Fusion Strategy", Center for a New American Security, January 2021, https://s3.us-east-1.amazonaws.com/files.cnas.org/documents/Myths-and-Realities-of-China's-Military-Civil-Fusion-Strategy_FINAL-min.pdf?mtime=20210127133521&focal=none, p.15.

3. UK Indo-Pacific Tilt and a Secure Taiwan Strait

Former Japanese Prime Minister Shinzo Abe recognised the importance of linking peace, stability and freedom of navigation in the Indo-Pacific.⁵⁷ The late Prime Minister's Free and Open Indo-Pacific concept, along with the region becoming the primary driver of global economic growth, helped spur the UK's "tilt" to the Indo-Pacific following Brexit and Britain's pursuit of increased trade in the region through its membership of the CPTPP.^{58, 59, 60} While the UK's economic growth resulting from the CPTPP is only expected to increase 0.1% over the next 15 years, the Government believes the trade pact will allow London to "fight unfair and coercive trading practices",⁶¹ primarily market distortions resulting from the CCP's mercantilist-communist economic model. However, Abe's vision of a prosperous and peaceful region is at risk because of tensions in the Taiwan Strait, which also pose a threat to UK commercial interests not only in Taiwan, but throughout the Indo-Pacific.

Indo-Pacific trade accounts for 65% of global commerce, with half of all international imports and exports passing through the two oceans.⁶² Should either Beijing or Taipei take unilateral steps to end the existing cross-Strait status quo, the ensuing chaos would result in disruptions to air and sea trade routes, through either PLA kinetic military warfare or blockades or non-kinetic actions such as cyber-attacks or occupation of offshore Taiwanese islands. This could lead not only to shortages of manufactured goods, but severe shocks to global food and energy supplies as well.⁶³ An estimated 88% of the world's largest cargo ships and 48% of the world's 5400 operational container ships sailed through the Taiwan Strait in 2022.⁶⁴ The total economic impact of war in the Taiwan Strait and the associated disruption to global trade is estimated at US\$2 trillion.⁶⁵

With the United Kingdom joining the CPTPP in July 2023, the UK's economic interconnectedness with the region has magnified the importance of a free and open Indo-Pacific for UK national interests, with 7.5% of all UK goods exported to CPTPP members, and 5.8% imported, and total trade of £250 billion throughout the entire region.^{66, 67} Former Foreign Secretary the Rt

⁵⁷ Nobukatsu Kanehara, "A Long-Term Vision for a Free and Open Indo-Pacific", U.S.-Asia Law Institute, 10 April 2023, <https://static1.squarespace.com/static/55d21ffee4b0d22e803fdca1/t/646d1df19bda9961b9df5938/1684872689194/USALI+Perspectives+4-10-23+-+Nobukatsu+Kanehara.pdf>, p.1.

⁵⁸ "Towards Free and Open Indo-Pacific", The Government of Japan, November 2019, <https://www.mofa.go.jp/files/000407643.pdf>, p.2.

⁵⁹ "The Indo-Pacific region", German Federal Foreign Office, 22 September 2023, <https://www.auswaertiges-amt.de/en/aussenpolitik/regionaleschwerpunkte/asien/indo-pacific/2493040>.

⁶⁰ "Tilting horizons: the Integrated Review and the Indo-Pacific", House of Commons Foreign Affairs Committee, 18 July 2023, <https://committees.parliament.uk/publications/41144/documents/204045/default/>.

⁶¹ "CPTPP: 10 benefits for the UK", 17 July 2023, Department for Business & Trade, <https://www.gov.uk/government/publications/cptpp-benefits-for-the-uk/cptpp-10-benefits-for-the-uk#:~:text=As%20CPTPP%20grows%2C%20the%20UK,thrive%20on%20the%20global%20stage>.

⁶² Dr Pankaj Vashisht, "Indo-Pacific Strategies: What Do They Entail for India?", *Journal of Indo-Pacific Affairs* 6, no.3, (March-April 2023), https://media.defense.gov/2023/Apr/24/2003205866/-1/-1/09-VASHISHT_FEATURE%20IWD.PDF/09-VASHISHT_FEATURE%20IWD.PDF, p.111.

⁶³ Melissa Chen (@MsMelChen), "Taiwan isn't *just* worth defending because of CHIPS. Letting Taiwan fall cedes the South and East China Seas to China", X, 26 August 2023, <https://twitter.com/MsMelChen/status/1695368609265254764?s=20>.

⁶⁴ Kevin Varley, "Taiwan Tensions Raise Risks in One of Busiest Shipping Lanes", *Bloomberg News*, 2 August 2022, <https://www.bloomberg.com/news/articles/2022-08-02/taiwan-tensions-raise-risks-in-one-of-busiest-shipping-lanes?sref=p8neHW1G&leadSource=uverify%20wall>.

⁶⁵ Vest, Kratz and Goujon, "The Global Economic".

⁶⁶ Dominic Webb, "The Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP)", House of Commons Library, 17 November 2023, <https://commonslibrary.parliament.uk/research-briefings/cbp-9121/>.

⁶⁷ Foreign, Commonwealth & Development Office and The Rt Hon James Cleverly MP, "Indo-Pacific tilt: Foreign Secretary's speech, September 2022", 29 September 2022, <https://www.gov.uk/government/speeches/foreign-secretary-james-cleverlys-speech-on-the-indo-pacific-tilt-september-2022#:~:text=Last%20year%2C%20in%20our%20Integrated,ambition%20to%20support%20open%20societies>.

Hon. James Cleverly MP previously stated that the UK's prosperity and growth are linked to new trade opportunities in the Indo-Pacific, and that "security and prosperity in [the region] are indivisible from Europe's."⁶⁸ Some have argued that the UK's national interest in CPTPP membership is less economic and more focused on increasing the UK's global profile and London's ability to influence trade and global governance institutions.⁶⁹

Despite warnings from MPs about the CCP threat and the risks of continued British economic dependence on China, the PRC remained the UK's third-largest trading partner in the region through June 2023, accounting for 7.4% of all imports, with electronics, machinery, vehicles, furniture and toys being the top imported goods.^{70, 71, 72, 73} India, Japan and Hong Kong are amongst the UK's top 15 trading partners for goods from the region, with the United Kingdom importing 2.4%, 1.6% and 1.1% respectively. The UK's top regional partners for the export of goods and services include China (4.6%), India (1.8%), Singapore (1.6%), Japan (1.6%) and Australia (1.5%).⁷⁴

Total imports from Taiwan to the United Kingdom were £4.6 billion for the previous four quarters through Q1 2023, while exports from the UK to Taiwan totalled £3.9 billion during the same period.⁷⁵ While Taiwan is only the UK's 32nd largest trading partner, there are key interdependencies besides the existing UK reliance on semiconductors, which would impact Britain's economy.

For example, there are now over 40 British offshore wind companies operating in Taiwan, which is the largest market for the UK's clean energy growth technology throughout the Indo-Pacific.⁷⁶ By 2025, Taipei plans to increase Taiwan's allocation of wind energy to 20% of total output, with a total capacity of 5.7 GW. The UK's industry could employ 61,000 people or more by 2030, with some estimates topping 90,000 total jobs, while contributing £1.3 billion annually to the UK's GDP.^{77, 78}

Even a seemingly non-essential sector such as bicycle manufacturing would have a significant impact on the UK and its economy. Taiwan's bicycle industry output reached US\$6.01 billion in 2022, a 26.4% year-on-year increase.⁷⁹ In 2021, demand for electric bicycles imported from Taiwan increased 66% from the previous year.⁸⁰ The bicycle industry in the UK creates

⁶⁸ Ibid.

⁶⁹ Marianne Schneider-Petsinger, "Real value for the UK in joining CPTPP is strategic", Chatham House, 31 March 2023, <https://www.chathamhouse.org/2023/03/real-value-uk-joining-cptpp-strategic>.

⁷⁰ Dr Robert Seely MP and Darren G. Spinck, "A New Era For UK Policymaking: An Economic Denial Strategy in the Indo-Pacific", The Henry Jackson Society, October 2022, <https://henryjacksonsociety.org/wp-content/uploads/2022/10/A-New-Era-for-UK-Policymaking-in-the-Indo-Pacific-web.pdf>.

⁷¹ Amy Gibbons, "MPs call for China to be officially deemed a 'threat' to UK", *The Independent*, 18 December 2022, <https://www.independent.co.uk/news/uk/china-government-mps-chinese-communist-party-taiwan-b2247318.html>.

⁷² "UK trade in numbers", Department for Business & Trade, 17 November 2023, <https://www.gov.uk/government/statistics/uk-trade-in-numbers/uk-trade-in-numbers-web-version>.

⁷³ "United Kingdom Imports from China", Trading Economics, <https://tradingeconomics.com/united-kingdom/imports/china>.

⁷⁴ Ibid.

⁷⁵ "Trade and Investment Factsheets", Department for Business & Trade, 21 September 2023, https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1185772/taiwan-trade-and-investment-factsheet-2023-09-21.pdf, p.1.

⁷⁶ "2023 UK Pavilion", Energy Taiwan, 14 November 2023, <https://www.energytaiwan.com.tw/en/menu/9B3E01BE582EB239D0636733C6861689/info.html>.

⁷⁷ "Why Britain is a world leader in offshore wind", *The Economist*, 24 November 2022, <https://www.economist.com/britain/2022/11/24/why-britain-is-a-world-leader-in-offshore-wind>.

⁷⁸ Andrew Macdonald, "Three ways the UK offshore wind supply chain boosts the economy", *Catapult*, 6 December 2022, <https://ore.catapult.org.uk/blog/3-ways-the-uk-offshore-wind-supply-chain-boosts-the-economy/>.

⁷⁹ "Taiwan bicycle industry output hits record high", *Taiwan Today*, 17 January 2023, <https://taiwantoday.tw/news.php?unit=6&post=231766>.

⁸⁰ Mark Sutton, "Electric bike exports to UK from Taiwan surge 66%, U.S.A 69%", *Cycling Industry News*, 7 December 2021, <https://cyclingindustry.news/electric-bike-exports-to-uk-from-taiwan-surge-66-u-s-a-69/>.

approximately 64,000 jobs including repair, tourism and delivery.⁸¹ It was estimated in 2015 that the health benefits of bicycling in the UK were valued at £1.05 billion and that cycling was responsible for £520 million through the tourism industry.^{82, 83}

Despite the UK and Taiwan not maintaining official diplomatic ties, there are thriving cultural ties between the British and Taiwanese peoples and the promotion of bilateral commercial ties through the British Office Taipei and the Taipei Representative Office in the United Kingdom. There are 300 British companies operating in Taiwan, 180 Taiwanese companies in the UK, and close to 8000 Taiwanese students in the United Kingdom.⁸⁴

Dr Michael Reilly, former director of the British Trade and Cultural Office in Taipei, previously suggested that the Government should support Taiwan's ambition to join the CPTPP, once the UK's own accession process was completed.⁸⁵ Dr Reilly remarked that Taiwan's CPTPP membership would be considered a "prize" and integrating the Taiwanese economy into the trade pact would benefit UK exporters hoping to expand their market share in the region and better enable the continued free flow of key goods and services, such as wind energy technology from the UK.⁸⁶ As Taiwan continues to pursue its national interests through CPTPP, the UK should back Taipei's aspirations and leverage this support by seeking to bolster UK interests as well, including increased exports of UK goods and services, greater market access for British agricultural products, and helping shape global trade policy.^{87, 88}

⁸¹ Cherry, "The case for cycling: the economy", Cycling UK, 18 October 2022, <https://www.cyclinguk.org/briefing/case-cycling-economy>.

⁸² "The economic value of the bicycle industry and cycling in the United Kingdom", SQW, March 2017, https://www.sqw.co.uk/application/files/7816/2039/5354/SQW_Economic_value_of_the_bicycle_industry_and_cycling_March_2017_FINAL.pdf, p.11.

⁸³ Cherry, "The case".

⁸⁴ "World location news, Taiwan and the UK", UK Government, <https://www.gov.uk/world/taiwan/news>.

⁸⁵ Darren G. Spinck, "Securing the Strait – Engaging Taiwan in the UK's Indo-Pacific Tilt", The Henry Jackson Society, July 2022, <https://henryjacksonsociety.org/wp-content/uploads/2022/07/HJS-Securing-the-Strait-Engaging-Taiwan-in-the-UKs-Indo-Pacific-Tilt-Report-web.pdf>, p.15.

⁸⁶ Ibid.

⁸⁷ "CPTPP: 10 benefits", Department for Business & Trade.

⁸⁸ Petsinger, "Real value".

4. A Secure First Island Chain

As noted by US Marines Colonel John “Buss” Barranco, “If Taiwan falls, China will have destroyed the United States’ credibility in the Indo-Pacific and the US defense perimeter in the first island chain.”⁸⁹ If the First Island Chain fell following an invasion of Taiwan, *Financial Times* commentator Gideon Rachman believes regional countries would “accommodate” China as the new regional hegemonic power, and re-evaluate current economic and foreign policies to avoid “giving offence to the prickly new hegemon”.⁹⁰ This would be catastrophic for the US-UK transatlantic partnership, for both economic and security policy, with the United States and United Kingdom becoming more susceptible to economic leverage from China and, subsequently, potentially more reliant upon the heavily regulated European Union for trade.

The First Island Chain, comprised of Taiwan, Japan, north-western Philippines and Indonesia, forms a “critical defense perimeter that, in a time of war, could help prevent Chinese forces from... threatening Guam, Australia, and Hawaii.”^{91, 92} China has two primary routes to project naval power into the Pacific Ocean via the First Island Chain – through either the Luzon Strait, between southern Taiwan and the Philippines, or through Japan’s south-west island archipelago and northern Taiwan.⁹³ An increased PLAN presence past the First Island Chain would thus complicate any hopes for joint AUKUS cooperation on containing CCP expansionism in the Indo-Pacific and beyond.

China’s ability to project power past the First Island Chain, and the diminishment of US power in the region should Taiwan fall to forced reunification, would allow the CCP to then perpetuate a regional, coercion-based trade system if it chose to do so. The CCP’s past policies toward Lithuania, France and the Netherlands for their previous support of Taipei demonstrates both the CCP’s willingness and effectiveness at weaponising trade to shape policy to favour Beijing’s geopolitical objectives. China’s military and economic hegemony would side-line the existing trade rules-based order of the CPTPP and diminish the UK’s post-Brexit Indo-Pacific tilt ambitions, preventing the UK and its other trading partners from freely mitigating existing risks associated with the current commercial dependency on China.

With the CCP’s ability to easily exert leverage on smaller governments, both economically and militarily, and the PLA’s option to freely position naval forces past the First Island Chain, the UK and other CPTPP signatories would have limited options to counter CCP market distortions. CCP intellectual property theft, forced technology transfers, dumping, subsidising state-owned enterprises, hacking and currency manipulation would propagate the CCP’s ability to exert leverage and the region’s dependency on the PRC for trade.

More concerning is the potential for a fall of Taiwan to embolden CCP officials for other military expansionism in the region. Should an invasion of Taiwan be preceded by a PRC occupation of one of Taiwan’s offshore islands – such as Matsu, Kimmen, Wuchiu or Pratas – it could encourage

⁸⁹ J. B. Barranco, “Taiwan: The Key to Containing China in the Indo-Pacific”, Atlantic Council, November 2022, https://www.atlanticcouncil.org/wp-content/uploads/2022/11/Taiwan_the-key-to-containing-China-in-the-Indo-Pacific.pdf, p.13.

⁹⁰ Gideon Rachman, “Why Taiwan matters to the world”, *Financial Times*, 10 April 2023, <https://www.ft.com/content/11b82a88-57ae-44b1-8368-864f42ffac7f>.

⁹¹ Andrew Yeo and Michael E. O’Hanlon, “Geostrategic Competition and Overseas Basing in East Asia and the First Island Chain”, Brookings, February 2023, https://www.brookings.edu/wp-content/uploads/2023/02/FP_20230207_east_asia_basing_ohanlon_yeo.pdf, p.6.

⁹² Mike Gallagher, “Battle Force 2025: A Plan to Defend Taiwan Within the Decade”, Foundation for Defense of Democracies, 17 February 2022, <https://www.fdd.org/wp-content/uploads/2022/02/fdd-memo-battle-force-2025.pdf>, p.3.

⁹³ Nozomu Yoshitomi, “How Japan Can Help Save Taiwan: Securing the First Island Chain”, *War on the Rocks*, 23 March 2022, <https://warontherocks.com/2022/03/ukraines-lessons-for-japan-securing-the-first-island-chain/>.

CCP adventurism toward other regional powers. As noted by an Inter-Parliamentary Alliance on China (IPAC) adviser, the region would quickly destabilise if Beijing no longer distinguished between its claims over Taiwan and Taiwanese-controlled islands and other smaller regional outlying islands, including Japan's.⁹⁴ This would not only lead to the emergence of a CCP-led economic trading system throughout the Indo-Pacific, but the potential for the PRC to control supply chains, allowing Beijing to control supply/demand based on their whims and the ability to worsen inflationary shocks on the UK and its partners in the West.

⁹⁴ Personal interview, in-person meeting, May 2023.

5. Development Finance

Recognising the CCP as a threat entails more than simply mitigating existing economic interdependence with the PRC and denying the PLA its hegemonic ambitions in the Indo-Pacific. The UK must also strive to restrict emerging and advanced technological cooperation with the PRC, counter CCP efforts to unduly influence global governance institutions and, most critically for the UK's Indo-Pacific partners, including Taiwan, offer a development finance strategy as an alternative to China's communist-mercantilist economic model. As acknowledged by Taiwan's vice president Lai Ching-te, "economic security is national security" and "we must foster secure supply chains."⁹⁵

While the UK and the US are currently focused on providing economic and military support to Ukraine, and on the volatile crisis in the Middle East and the domestic political backlash during election cycles, they must also focus development finance efforts on attracting private sector investment to compete with China's Belt and Road Initiative (BRI) and other infrastructure development platforms. Private sector solutions for development finance are critical as Beijing diversifies its sources of investment beyond state-owned funding mechanisms, with Alibaba and CATL leading China's BRI funding in 2022.⁹⁶ However, given the role of China's state-owned banks and enterprises during BRI's initial engagement, the success of PRC private sector investment is not yet clear, which provides an opportunity for the UK and its partners to compete in development finance and economic statecraft.

As recommended in a May 2023 Henry Jackson Society report by this author, the Blue Dot Network, an infrastructure development certification platform of which the United Kingdom is a founding member, "should focus on certifying and helping secure private funding for developing resilient supply chains throughout the Indo-Pacific."⁹⁷ Rather than focusing on connectivity throughout the Indo-Pacific and infrastructure projects which would help secure supply chains and minimise over-reliance on China throughout the region, the Blue Dot Network has instead followed the same climate policy-driven strategy that the Biden Administration and the UK cross-party consensus have focused on, including a 1.5 GW wind farm in Brazil and a "green data center" in Indonesia.⁹⁸ The City of London has previously collaborated with Beijing to "achieve the ambitious endeavour of greening the Belt and Road Initiative (BRI)".⁹⁹

More troubling for the ability of the US and UK to mitigate the risks associated with existing commercial dependency on China, and to fund development finance initiatives through the private sector, is the insistence of Wall Street and the City of London to invest – often with the retirement savings of Americans and Britons who entrusted Western financial institutions to invest safely – into CCP controlled companies. Mike Gallagher, Chairman of the US House Select Committee on the CCP, has asked, "Do you want your pension fund paying for China's

⁹⁵ Ching-te, "My Plan".

⁹⁶ Christoph Nedopil, "China Belt and Road Initiative (BRI) Investment Report 2022", Green Finance and Development Center, FISF Fudan University, January 2023, https://greenfdc.org/wp-content/uploads/2023/02/Nedopil-2023_China-Belt-and-Road-Initiative-BRI-Investment-Report-2022.pdf, p.3.

⁹⁷ Darren G. Spinck, "Stronger Together: How US-UK Collaboration Can Answer China's Growing Geopolitical Ambition", The Henry Jackson Society, May 2023, <https://henryjacksonsociety.org/wp-content/uploads/2023/05/HJS-Stronger-Together-DESIGNED-FINAL.pdf>, p.34.

⁹⁸ "Blue Dot Network Criteria: Relevant, Achievable, Aligned with International Standards", U.S. Department of State, 24 April 2023, <https://www.state.gov/blue-dot-network-criteria-relevant-achievable-aligned-with-international-standards/>.

⁹⁹ "Greening the Belt and Road: A UK-China collaboration", City of London Corporation, 18 May 2022, <https://www.cityoflondon.gov.uk/supporting-businesses/economic-research/research-publications/greening-the-belt-and-road-a-uk-china-collaboration>.

aircraft carriers? Should your university's endowment be underwriting the Chinese Communist Party's genocide against the Uyghur people?"¹⁰⁰

With the Biden Administration diverging from CPTPP with the US-led Indo-Pacific Economic Framework (IPEF), the UK is in a unique position to help drive development finance in the region after many governments have criticised Washington for an "all guns, no butter strategy" which "[gives] China an opportunity to use its economic clout to pressure other countries."¹⁰¹

The UK can begin by acknowledging that public coffers cannot be the sole driver for competing with China's BRI in the Indo-Pacific. With the UK experiencing economic growth of only 0.2% from April to June 2023, and 6.8% inflation during the same period, a public sector solution to the Indo-Pacific's infrastructure needs is not the answer.

Instead, the UK and its Blue Dot Network partners can best compete with the CCP's economic model by identifying what the needs of Indo-Pacific partners are. If, as noted by other research, the infrastructure development needs for some are focused on economic growth, climate policy or "providing basic services and reducing vulnerability", then policies addressing these regional priorities can likely be addressed through the CPTPP.¹⁰²

First, the UK can work on better prioritising the needs of smaller Pacific Islands, not only to counter PRC economic influence, but military expansion as well. The Pacific Islands remain critical for China's counterinsurgency strategy, according to Bruce Jones from the Brookings Institution, "to prevent reinforcement of the United States' position inside the first island chain."¹⁰³

Second, the Blue Dot Network, not regional trade agreements, can best counter Chinese influence for infrastructure development finance. If the UK relied solely on trade pacts, it could face resistance from some fellow CPTPP members who have not yet begun mitigating their own economic overreliance on trade with China. Besides the US and UK, other founding members of the platform's steering committee include Australia and Japan, as well as more recent additions Czech Republic, Spain and Switzerland. Taiwan's participation, joining Indo-Pacific powers Australia and Japan, would allow Taipei to engage private investment for sound infrastructure development projects which would better help secure the Taiwan Strait from PRC hegemony.

Third, Taiwan must shoulder some of the burden not only for its defence, but for fortifying Indo-Pacific economic security. To stand aside risks regional overdependence on commercial ties with the PRC, which in turn would allow the CCP to exert leverage over its trade partners and, subsequently, formulate policies which are averse to the UK's national interests and Taiwan's ability to remain self-governed and *de-facto* independent.

Taiwan's foreign currency reserves totalled US\$565.47 billion as of August 2023 – amongst the top five holders of foreign currency in the world.^{104, 105} The IMF has suggested a country

¹⁰⁰ Select Committee on the Chinese Communist Party (@committeeonccp), "Do you want your pension paying for China's aircraft carriers?", X, 23 September 2023, <https://twitter.com/committeeonccp/status/1705573205514039530?s=20>.

¹⁰¹ Demetri Sevastopulo and Kana Inagaki, "Joe Biden waters down Indo-Pacific Economic Framework to win more support", *Financial Times*, 20 May 2022, <https://www.ft.com/content/91207c37-c9bd-4737-abf5-afc71200f8a1>.

¹⁰² Roland Rajah, "Indo-Pacific infrastructure development financing: an agenda for Australia and Europe", Lowy Institute, 29 March 2023, <https://www.loyyinstitute.org/publications/indo-pacific-infrastructure-development-financing-agenda-australia-europe>.

¹⁰³ Bruce Jones, "Temperatures rising: The struggle for bases and access in the Pacific Islands", Brookings, February 2023, <https://www.brookings.edu/articles/temperatures-rising-the-struggle-for-bases-and-access-in-the-pacific-islands/>.

¹⁰⁴ "Foreign Exchange Reserves", National Statistics Republic of China (Taiwan), <https://eng.stat.gov.tw/Point.aspx?sid=t.10&n=4209&sms=11713>.

¹⁰⁵ Anshu Siripurapu and Noah Berman, "The Dollar: The World's Reserve Currency", Council on Foreign Relations, 19 July 2023, <https://www.cfr.org/background/dollar-worlds-reserve-currency>.

maintain foreign currency reserves for three months of imports.¹⁰⁶ Taiwan has averaged imports totalling US\$23 billion monthly over a 15-year period.¹⁰⁷ Even taking Taiwan's highest recorded monthly imports, an anomaly of US\$39.4 billion in February 2022, the IMF's suggested three-month total would be US\$118.2 billion. Even doubling the IMF's recommendation to six months of reserves, Taiwan would still require only US\$236.4 billion and its surplus reserves would exceed \$300 billion.

However, Taiwan's central bank has opposed modifying the law prohibiting the formation of a sovereign wealth fund (SWF) totalling 10% of foreign currency reserves for "strategic industries".¹⁰⁸ Opponents of using Taiwan's foreign currency reserves have argued an excess is needed for a "protection tool" since an external bailout during a financial meltdown might not be available as Taiwan is not a member of the International Monetary Fund.¹⁰⁹ At an estimated US\$53 billion (if Taiwan earmarked 10% of its foreign currency reserves to a fund), Taiwan's SWF would rank amongst the top 20 in the world and allow Taipei great influence in policymaking in the Indo-Pacific, while reducing the burden of public-funded development finance from the US and UK considerably.¹¹⁰ This would then allow the transatlantic partners to allocate funds previously used for such infrastructure development initiatives to defence and other domestic funding, thus minimising criticism from both political spectrums over the continued foreign assistance.

¹⁰⁶ "IMF Survey: Assessing the Need for Foreign Currency Reserves", International Monetary Fund, 7 April 2011, <https://www.imf.org/en/News/Articles/2015/09/28/04/53/sopol040711b>.

¹⁰⁷ "Taiwan Total Imports", CEIC Data, <https://www.ceicdata.com/en/indicator/taiwan/total-imports#:~:text=in%20Jul%202023%3F-,Taiwan%20Total%20Imports%20recorded%2029.4%20USD%20bn%20in%20Jul%202023,table%20below%20for%20more%20data>.

¹⁰⁸ Jimmy Choi, "Taiwanese central bank opposes sovereign wealth fund proposal", Central Banking, 17 May 2023, <https://www.centralbanking.com/central-banks/sovereign-wealth/7958752/taiwanese-central-bank-opposes-sovereign-wealth-fund-proposal>.

¹⁰⁹ "Editorial: Wealth fund proposal lacks reason", *Taipei Times*, 16 May 2023, <https://www.taipeitimes.com/News/editorials/archives/2023/05/16/2003799856>.

¹¹⁰ "Top 100 Largest Sovereign Wealth Fund Rankings by Total Assets", SWFI Institute, <https://www.swfinstitute.org/fund-rankings/sovereign-wealth-fund>.

6. Indo-Pacific Denial Strategy

A successful denial strategy in the Indo-Pacific, aimed at preventing a PRC-initiated cross-Strait conflict and/or preventing the PLA from attaining hegemonic control of regional shipping and air routes, will require:

1. Ensuring Taiwan's Armed Forces are adequately armed and properly trained to deter a PLA attack.
2. The United Kingdom and other Indo-Pacific partners modernising their militaries sufficiently and increasing industrial base production.
3. The US, the security guarantor for the Indo-Pacific, having an adequate force posture in the region, and coordinating joint training, freedom of navigation exercises and forward positioning of supplies with the UK armed forces and other regional militaries.

In mid-September 2023, China's PLA conducted its largest military training exercise east of Taiwan, with the *Shandong* and 20 other PLAN vessels in Indo-Pacific waters surrounding Japan, the Philippines and Taiwan. Regional experts believe the training simulated a blockade of Taiwan, as well as the coordination of sea and air forces further from mainland China.¹¹¹ During the training exercise, Taiwan's Ministry of National Defense reported 103 PLA aircraft flew over or near Taiwan in a single day, with 40 PRC planes crossing the ADIZ.¹¹² As Elbridge Colby, former US Deputy Assistant Secretary of Defense for Strategy and Force Development, remarked, Taiwan's "lassitude," America's "inattention/lack of urgency" and the slow movement of other regional militaries cannot be expected to adequately deny PLA capabilities in "the face of Beijing's historic military and nuclear buildup."¹¹³

According to a recent Rand Corporation report, Taipei's defence spending and preparation do not reflect the existential threat that Taiwan faces.¹¹⁴ Taiwan's defence budget is not expected to exceed 2% of its GDP and, as the authors of the Rand report note, antiquated naval vessels, tanks and combat aircraft comprise Taiwan's defensive capabilities and some of its combat units are undermanned, estimated to be 60-80% of the needed force size.¹¹⁵

The Washington Post reported on leaked US intelligence documents which indicate that Taiwanese officials doubt the ability of the island's defence forces to detect PLA missile launches accurately and raise concerns that only about half of Taiwan's fighter aircraft are "fully mission capable."¹¹⁶ According to the Global Firepower Index, the PLA has an estimated

¹¹¹ David Pierson and Amy Chang Chien, "China Conducts Major Military Exercises in Western Pacific", *The New York Times*, 14 September 2023, <https://www.nytimes.com/2023/09/14/world/asia/china-ships-taiwan-japan.html>.

¹¹² Ministry of National Defense, R.O.C. (@MoNDefense), "103 PLA aircraft and 9 PLAN vessels around Taiwan were detected by 6 a.m.(UTC+8) today. R.O.C. Armed Forces have monitored the situation and tasked CAP aircraft, Navy vessels, and land-based missile systems to respond these activities.", X, 17 September 2023, <https://twitter.com/MoNDefense/status/1703615924069446015>.

¹¹³ Elbridge Colby (@ElbridgeColby), "Taiwan's lassitude, American inattention/lack of urgency, and Japan's slow movement are what could put us in this awful position in the face of Beijing's historic military and nuclear buildup. We all need to *wake up* and laser focus on a denial defense for Taiwan!", X, 15 September 2023, <https://x.com/ElbridgeColby/status/1702683432906625208?s=20>.

¹¹⁴ David A. Ochmanek, Anna Dowd, Stephen J. Flanagan, Andrew R. Hoehn, Jeffrey W. Hornung, Michael J. Lostumbo and Michael J. Mazarr, "Inflection Point, How to Reverse the Erosion of U.S. and Allied Military Power and Influence", RAND Corporation, 2023, https://www.rand.org/pubs/research_reports/RRA2555-1.html, p.XIII.

¹¹⁵ Paul Huang, "Taiwan's Military Is a Hollow Shell", *Foreign Policy*, 15 February 2020, <https://foreignpolicy.com/2020/02/15/china-threat-invasion-conscription-taiwans-military-is-a-hollow-shell/>.

¹¹⁶ Ellen Nakashima, Christian Shepherd and Cate Cadell, "Taiwan highly vulnerable to Chinese air attack, leaked documents show", *The Washington Post*, 15 April 2023, <https://www.washingtonpost.com/national-security/2023/04/15/taiwan-china-invasion-leaked-documents/>.

2216 military aircraft at mission readiness, including fighters, transports, tankers and attack helicopters.¹¹⁷ Taiwan, by comparison, has 590 mission-ready aircraft at best.¹¹⁸

A June 2023 US-China Economic and Security Review Commission report found that “Taiwan’s diminishing ability to maintain a credible deterrent capability could provide incentives and create opportunities for Beijing to take on greater risk in its approach to cross-Strait relations, including... using military force to achieve political objectives.”¹¹⁹

However, neither the US nor the UK can expect to lecture Taiwanese officials when their respective defence industrial bases and military policymakers do not practise what they preach. A former senior Atlantic Council adviser, who emphatically stated that the UK is no longer a formidable military power, has warned that the recent UK Defence Command Paper “offers no viable vision or strategic plan” to reverse the decline in Britain’s active duty personnel and offers no course to meet current realities.¹²⁰

In the United Kingdom, for example, a recent House of Commons Defence Committee report on UK aviation procurement found the Royal Air Force (RAF) “has not been immune from the hollowing out of the Armed Forces.”¹²¹ According to a witness interviewed for the report, the RAF “at present is too small, with too little depth, and too few resources to meet the demands of the growing challenges that it faces.”¹²²

The UK’s conventional forces number fewer than the US Marine Corps, while the Royal Navy has just two carriers; 18 destroyers/frigates; two landing platform dock ships; six nuclear attack and four Vanguard-class submarines, compared to the PLAN’s estimated 400-ship fleet by 2025.^{123, 124} The British Army maintains approximately 150 deployable tanks according to *The Wall Street Journal* and “perhaps a dozen serviceable long-range artillery pieces”.¹²⁵

In the US, concerns are mounting about America’s ability to deter a CCP attack on Taiwan. Mike Gallagher warns that “A conflict with China over Taiwan would be catastrophically destructive... Preventing World War III is the near term objective that needs to animate most of what we do...”.¹²⁶

Despite Congressional warnings about the need to keep pace with the PRC’s military modernisation, and the US Secretary of the Air Force stating that China is preparing its armed forces for conflict with the United States, a media report detailing a leaked Office of Naval

¹¹⁷ “2023 China Military Strength”, Global Firepower Index, https://www.globalfirepower.com/country-military-strength-detail.php?country_id=china.

¹¹⁸ “2023 Taiwan Military Strength”, Global Firepower Index, https://www.globalfirepower.com/country-military-strength-detail.php?country_id=taiwan.

¹¹⁹ Craig Murray and Kyle Churchman “Taiwan’s Declining Defense Spending Could Jeopardize Military Preparedness”, U.S.-China Economic and Security Review Commission, 11 June 2013, https://www.uscc.gov/sites/default/files/Research/Taiwan%20Declining%20Defense%20Spending%20Could%20Jeopardize%20Military%20Preparedness_Staff%20Research%20Background.pdf, p.4.

¹²⁰ Harlan Ullman, “Britain’s armed forces must adapt radically to meet future threats”, *Financial Times*, 2 August 2023, <https://www.ft.com/content/6660b59e-bc2e-47c7-9d92-9aa603877366>.

¹²¹ “Aviation Procurement: Winging it?”, House of Commons Defence Committee, 5 September 2023, <https://committees.parliament.uk/publications/41355/documents/203534/default/>, p.36.

¹²² Ibid.

¹²³ Ullman “Britain’s armed forces”.

¹²⁴ “Military and Security Developments Involving the People’s Republic of China, 2022, Annual Report to Congress”, 2022, U.S. Department of Defense, <https://media.defense.gov/2022/Nov/29/2003122279/-1/-1/1/2022-MILITARY-AND-SECURITY-DEVELOPMENTS-INVOLVING-THE-PEOPLES-REPUBLIC-OF-CHINA.PDF>, p.52.

¹²⁵ Max Colchester, David Luhnnow and Bojan Pancevski, “Alarm Grows Over Weakened Militaries and Empty Arsenals in Europe”, *The Wall Street Journal*, 11 December 2023, <https://www.wsj.com/world/europe/alarm-nato-weak-military-empty-arsenals-europe-a72b23f4>.

¹²⁶ Select Committee on the Chinese Communist Party (@committeeonccp), “A conflict with China over Taiwan would be catastrophically destructive”, X, 11 September 2023, <https://twitter.com/committeeonccp/status/1701302613298352408>.

Intelligence slide indicates China's current shipbuilding capacity is 232 times that of America, with the PRC capacity at 23.2 million tons compared to 100,000 tons in the United States.^{127, 128}

Complicating America's ability to adequately arm Taiwan and compete with the PRC's military modernisation is the US commitment to continue shouldering the lion's share of military support for Ukraine amongst NATO allies. Retired US Admiral James Stavridis has noted that the war in Ukraine has increased the need for electronic components for anti-ship cruise missiles, smart artillery rounds, drones, etc., with Ukraine estimated to "burn through" a year's worth of 155-mm gun round production each month.¹²⁹ The US Under Secretary of Defense for Acquisition and Sustainment, Dr William A. LaPlante, recently dismissed the need for 155 rounds in the Indo-Pacific theatre, cavalierly stating: "I just don't know what you'd fire a 155 round at in the Pacific other than the water."¹³⁰ Rand Corporation, however, prioritises the procurement by Taiwan of self-propelled howitzers which use 155mm rounds for "defending against landed PLA forces".¹³¹

A year prior to Russia's invasion of Ukraine, Washington had approved the sale of 40 M-109A6 Paladin howitzers, which require the ammunition that Ukraine is using in its self-defence.¹³² According to a report, large US defence contractors plan to increase the production of howitzer shells to six times the current production levels by 2028, with some manufacturers expected to double output by 2025.¹³³ It is believed by some experts that Ukraine and Taiwan require some of the same weapons for their respective defences, including HIMARSs (High Mobility Artillery Rocket Systems), Javelins, Stingers, NASAMS (National Advanced Surface-to-Air Missile Systems), Patriots, Harpoons and tactical unmanned aerial vehicles.¹³⁴

¹²⁷ "Kendall outlines China threat in stark detail, offers blueprint for effective response", United States Air Force, 11 September 2023, <https://www.af.mil/News/Article-Display/Article/3521976/kendall-outlines-china-threat-in-stark-detail-offers-blueprint-for-effective-re/>.

¹²⁸ Michael Lee, "Chinese shipbuilding capacity over 200 times greater than US, Navy intelligence says", *Fox News*, 14 September 2023, https://www.foxnews.com/world/chinese-shipbuilding-capacity-over-200-times-greater-than-us-navy-intelligence-says?utm_source=Daily%20on%20Defense%20%2809152023%29_09%2F15%2F2023&utm_medium=email&utm_campaign=WEX_Daily%20on%20Defense&rid=24899895&env=ab58cea04a63d6bf88463dd72ccd81c76fc1bae71c677fe00b1a18dce25c6d63.

¹²⁹ James Stavridis, "Ukraine is Running Out of Ammo. So Is the US.", *Bloomberg News*, 28 April 2023, <https://www.bloomberg.com/opinion/articles/2023-04-28/ukraine-and-the-pentagon-are-using-ammo-far-faster-than-us-makes-it?leadSource=uverify%20wall>.

¹³⁰ Hon. Dr William A. LaPlante, "Strengthening the U.S. Industrial Base with Hon. Dr. William A. LaPlante", Center for Strategic and International Studies, 26 September 2023, <https://www.csis.org/analysis/strengthening-us-industrial-base-hon-dr-william-laplante>.

¹³¹ Ochmanek, et al., "Inflection Point", p.52.

¹³² Mike Yeo, "US government clears \$750 million artillery sale to Taiwan", *Defense News*, 6 August 2021, <https://www.defensenews.com/global/asia-pacific/2021/08/06/us-government-clears-750-million-artillery-sale-to-taiwan/>.

¹³³ Doug Cameron, "U.S. Struggles to Replenish Munitions Stockpiles as Ukraine War Drags On", *The Wall Street Journal*, 29 April 2023, <https://www.wsj.com/articles/u-s-push-to-restock-howitzer-shells-rockets-sent-to-ukraine-bogs-down-f604511a>.

¹³⁴ Alex Velez-Green (@Alex_agvg), "We know Taiwan and Ukraine both require many of the same systems to defend themselves", X, 22 April 2023, https://twitter.com/Alex_agvg/status/1649561660112228354?s=20.

7. Deconfliction

As Luke de Pulford from the Inter-Parliamentary Alliance on China (IPAC) has noted, the former Foreign Secretary James Cleverly had increasingly caricatured the concerns of the CCP's most outspoken critics, claiming they were calls for complete disengagement with the PRC.^{135, 136} No credible CCP sceptic has called for a suspension of diplomatic relations as the former Foreign Secretary claimed. Strawman arguments from the Government, minimising valid concerns over the CCP's trade distortions, abhorrent human rights record and military aggression in the Indo-Pacific, are counterproductive to UK national interests. Mis-categorising legitimate concerns about the CCP and UK relations with the PRC creates internal divisions and blinds us to areas of broad consensus. This, effectively, allows the CCP to play to our perceived divisions. Recent actions taken by UK security services, as well as those in Canada, Australia and the US, suggest these divisions are being actively facilitated by the CCP.^{137, 138, 139}

Advocating for mitigating the UK's commercial dependence on the CCP and restricting outbound British capital investment to stop fuelling the CCP's military modernisation is not "ignoring China, pretending it doesn't exist", as the former Foreign Secretary suggested.¹⁴⁰ On the contrary, raising concerns about Sino-British relations is an acknowledgement that the CCP's policies are a direct threat to UK national interests.

The risks related to economic dependency on the CCP were well known even during the "Golden Era", as James Cleverly's successor, Lord Cameron, formerly dubbed the period that followed his decision as Prime Minister to encourage deeper UK-China engagement. Remaining silent about valid concerns, then and now, allows for a naivety to take root both in the civil service and amongst the public. The only way to be pragmatic is to be clear-eyed, and this means not being afraid to voice justified concerns.

There is no question that diplomatic ties with the PRC, a nuclear power and the world's second largest economy, are necessary. UK-PRC diplomatic ties need not focus on increasing the United Kingdom's economic interdependence with China though, which is not in Britain's economic security interests. Nor need those ties allow China leverage over British policymaking through over reliance on the PRC to attain climate change objectives. There is, however, a vital need to maintain diplomacy to help secure the Taiwan Strait. It is necessary for the UK's Indo-Pacific tilt, and to make Brexit work. Further afield, an outward looking UK, whether it is building ties in South America or Africa, will require the United Kingdom to engage with China as a significant stakeholder in these regions as well. It is also necessary to maintain strategic unity with our core allies, including the US and Australia - both of which remain keen to engage pragmatically with China.

¹³⁵ Luke de Pulford (@lukedepulford), "Disappointing to see the Foreign Secretary @JamesCleverly (a decent man) caricaturing Beijing's more outspoken critics like this", X, 17 September 2023, <https://twitter.com/lukedepulford/status/1703353766177653107?s=20>.

¹³⁶ Bill McLoughlin, "Foreign Secretary refuses to confirm if he raised 'Chinese spy' arrest with officials in Beijing", *The Standard*, 17 September 2023, <https://www.standard.co.uk/news/politics/china-spy-westminster-arrest-james-cleverly-commons-rishi-sunak-b1107543.html>.

¹³⁷ Ryan Tumilty, "Chinese 'influence' and 'intelligence threat' outlined in declassified 25-year-old CSIS-RCMP report", *National Post*, 18 September 2023, <https://nationalpost.com/news/politics/chinese-influence-and-intelligence-threat-outlined-in-declassified-25-year-old-csis-rcmp-report>.

¹³⁸ Eve Brennan and Niamh Kennedy, "British PM raised 'strong concerns' over Chinese interference after parliament employee arrested", *CNN*, 11 September 2023, <https://edition.cnn.com/2023/09/10/europe/rishi-sunak-china-concerns-intl-gbr/index.html>.

¹³⁹ Joshua Kurlantzick, "China's Influence Efforts Are Expanding - But They Also Often Are Failing", Council on Foreign Relations, 22 February 2023, <https://www.cfr.org/article/chinas-influence-efforts-are-expanding-they-also-often-are-failing>.

¹⁴⁰ McLoughlin, "Foreign Secretary".

This includes maintaining deconfliction channels with China to prevent military conflict. Beijing ended critical military backchannel communication with the United States following former US Speaker of the House Nancy Pelosi's visit to Taiwan in August 2022. The issue of re-establishing these critical military lines of communication was raised by US Secretary of State Antony Blinken during his June 2023 meeting with Xi, but the overtures of America's top diplomat were refused.¹⁴¹ During the recent side-line meeting between US President Joe Biden and Xi at the Asia-Pacific Economic Cooperation (APEC) conference, both powers agreed to resume military-to-military communication. A deconfliction channel between two nuclear superpowers is essential for avoiding miscommunication in Indo-Pacific waters as both the PLA and the US ramp up training exercises. However, one would only need to ask a Hongkonger if Beijing's word has been its bond in the past.

The UK is in a unique position to work to ensure these recently re-established backchannel communications endure and to help avoid conflict arising from miscommunication or misunderstanding in the Taiwan Strait, or elsewhere in the Indo-Pacific. The UK, by being neither the US nor the European Union, but by potentially having the ear of both, and as a power with global connection and significant soft power, can play this role. As the UK is not in a position to threaten China militarily, in the way the US can, it may make it easier for the UK to help maintain the recently re-established channels that could again become closed to the US if Washington and Beijing disagree on policy in the future.

As a member of the CPTPP trade pact, which China aspires to join, London could communicate to Beijing that any future refusal to maintain military-to-military communications between the US and PRC would be viewed as destabilising to Indo-Pacific peace and a potential disruption to regional peace. As the symbolic head of the Commonwealth, London, through the UK's Foreign Office, could also work to build a consensus with other Commonwealth members from the CPTPP (New Zealand, Malaysia, Australia, Canada and Singapore) that the PRC's successful accession to the CPTPP should be dependent on Beijing's respect for Indo-Pacific security, including through the ongoing maintenance of military communication with the US. The preamble of the CPTPP agreement stresses that parties to the agreement "provide a catalyst [though the expansion of trade] to broader regional and international cooperation."¹⁴²

¹⁴¹ Simina Mistreanu, "Why haven't China and the US agreed to restore military contacts?", *Associated Press News*, 20 June 2023, <https://apnews.com/article/china-us-blinken-xi-military-communications-a61bc6fe824b7b6d1c9d47c5424b4a5d>.

¹⁴² "Comprehensive and Progressive Agreement for Trans-Pacific Partnerships texts Preamble", New Zealand Foreign Affairs and Trade, 4 February 2016, <https://www.mfat.govt.nz/assets/Trade-agreements/TPP/Text-ENGLISH/O.-Preamble.pdf>, p.II.

8. Recommendations

Taiwan's presidential election date is 13 January 2024, and the Democratic Progressive Party (DPP) candidate Lai Ching-te ("William Lai") is leading most public opinion polls as of December 2023. Talks of a unity ticket between the nationalist Kuomintang (KMT) and Taiwan People's Party (TPP) failed to materialise, but the candidates of the two parties, which both seek warmer relations with Beijing, are polling close behind Lai's 34%, with the KMT's Hou Yu-ih polling at 31% while the TPP's Ko Wen-je maintains support of 23% of the electorate.¹⁴³

Whether Lai, who has voiced support for Taiwan's independence while serving in the cabinet of current Taiwanese president Tsai Ing-wen, wins the election, or one of the candidates seeking a rapprochement with Beijing is victorious, London must pursue UK-Taiwan policies in the United Kingdom's national interests. London should build upon the recently signed Enhanced Trade Partnership (ETP) with Taipei, which prioritises investment, digital trade and renewable energy policies between Taiwan and the UK. According to former International Trade Minister Nigel Huddleston, boosting trade is "critical to [the UK's] Indo-Pacific tilt and plays to Britain's strengths as we look to realise our goal to become a global science and technology superpower by 2030."^{144, 145} The UK and the Foreign Office under Lord Cameron must resist pressure from Beijing to not pursue trade cooperation with Taipei, which Beijing views as "as an excuse to engage in official exchanges or enhance substantive relations with Taiwan."¹⁴⁶ London should also join the UK's other allies in warning Beijing against PRC escalation toward Taiwan should the CCP deem the winner of the upcoming presidential election as too pro-independence for its liking.

While the UK should pursue cultural and economic ties between the Taipei Representative Office in the UK and the British Office in Taipei, the Government and Parliament should aim to better secure the Taiwan Strait and pursue British national interests in the Indo-Pacific with the following policy recommendations.

1. Securing the Taiwan Strait is a vital national security interest of the United Kingdom. The Government must communicate to the British people how maintaining the status quo in cross-Strait relations is a key objective of the UK's Indo-Pacific tilt and that deterring any forced reunification of Taiwan, which would end Taipei's self-governance, would impact Britain's security and prosperity. The House of Commons should consider mirroring the work done by the US House of Representatives Select Committee on the Chinese Communist Party and convene a select committee tasked with investigating the CCP's threat to the Indo-Pacific region and, by extension, the United Kingdom, its people and commercial entities and British values.
2. The UK, along with its European NATO allies, should share more responsibility for arming Ukraine, allowing Washington to focus more resources on arming the Taiwanese, forward positioning military assets throughout the Indo-Pacific, and denying the PLA from forcibly disrupting the cross-Strait status quo. This will necessitate London, as suggested in the May 2023 Henry Jackson Society report also written by this author, to

¹⁴³ Alyssa Chen, "Taiwan election: KMT's Hou Yu-ih climbs in polls after collapse of joint ticket, but DPP's William Lai still leads", *South China Morning Post*, 28 November 2023, <https://www.scmp.com/news/china/politics/article/3243145/taiwan-election-kmts-hou-yu-ih-climbs-polls-after-collapse-joint-ticket-dpps-william-lai-still-leads>.

¹⁴⁴ "UK and Taiwan Enhanced Trade Partnership agreement", Department for Business and Trade, 14 November 2023, <https://www.gov.uk/government/publications/uk-and-taiwan-enhanced-trade-partnership-arrangement>.

¹⁴⁵ "UK hosts talks with Taiwan to boost trade ties", Department for Business and Trade, 8 November 2023, [https://www.gov.uk/government/news/uk-hosts-talks-with-taiwan-to-boost-trade-ties#:~:text=Today%20\(8%20November\)%20British%20Representative,and%20energy%20and%20net%2Dzero](https://www.gov.uk/government/news/uk-hosts-talks-with-taiwan-to-boost-trade-ties#:~:text=Today%20(8%20November)%20British%20Representative,and%20energy%20and%20net%2Dzero).

¹⁴⁶ Helen Davidson, "China tells UK to stop using trade to improve Taiwan ties", *The Guardian*, 9 November 2023, <https://www.theguardian.com/world/2023/nov/09/china-tells-uk-to-stop-using-trade-to-improve-taiwan-ties>.

aim for an increase in defence spending as a percentage of GDP to near Cold War levels and to accelerate domestic industrial capacity in the defence sector, particularly naval ship building and the modernisation of the Royal Air Force.¹⁴⁷ However, Government spending on households and businesses related to “cost of living pressures”, which led to a deficit of 5.4% of UK GDP in 2022-23, may make such an ambitious increase in UK defence spending untenable.¹⁴⁸ The Prime Minister has set a goal of increasing defence spending by 2.5% of the UK’s GDP, but without a firm date to do so and a target of only 2.25% of spending by 2025, perhaps a more realistic objective for defence budgeting is aiming for a near-term date to achieve spending at 2.5%, with a longer-term goal of 3% of GDP.¹⁴⁹

The United Kingdom could also enact policy similar to the US Defense Production Act (DPA) which allows the US Executive Branch to “‘allocate materials, services, and facilities’ for national defence purposes.”¹⁵⁰ The Biden Administration has sought to expand the US Government’s ability to invest in private enterprise by broadening the scope of the DPA’s Title III to include the United Kingdom, as well as Australia, “to ensure the timely availability of essential industrial resources to support national defense and homeland security requirements.”¹⁵¹

3. The UK Defence Secretary should stress to Taiwan Ministry of National Defence officials the need for Taipei to end its existing “lassitude” vis-à-vis its national defence and increase training and military spending. The Government should encourage Taipei to increase spending on its own defence to at least 3% of Taiwan’s GDP to help relieve pressures on the US, UK and other partners and to better help shoulder the burden of securing the Taiwan Strait.
4. The Government should demonstrate political will and fund research facilities for semiconductors and advanced/emerging technologies and promote STEM (science, technology, engineering and mathematics) education programmes to ensure the United Kingdom is not overly reliant on the export of technology and qualified workers from Taiwan and other foreign supply chains. In addition, the UK should collaborate closely with its closest partner, the US, to develop policies to encourage Indo-Pacific partners to limit the export of key semiconductor production to China. Despite calls in the United States from both the political left – Congressman Seth Moulton (D-MA) – and right – former Trump Administration National Security Adviser Robert O’Brien – for Washington to order the destruction of Taiwan’s semiconductor foundries if China invades Taiwan, the US Government has recently extended export waivers to both Taiwan and South Korea, allowing Huawei to accelerate production of infrastructure for its own semiconductor plants.^{152, 153, 154} Other Government priorities to help ensure

¹⁴⁷ Spinck, “Stronger Together”, pp.7, 33 & 35.

¹⁴⁸ Matthew Keep, “The budget deficit, a short guide”, House of Commons Library, 8 June 2023, <https://researchbriefings.files.parliament.uk/documents/SN06167/SN06167.pdf>, p.4.

¹⁴⁹ Deborah Haynes, “UK defence spending as share of GDP falls despite Russia’s war in Ukraine”, *Sky News*, 21 March 2023, <https://news.sky.com/story/uk-defence-spending-as-share-of-gdp-falls-despite-russias-war-in-ukraine-12839579>.

¹⁵⁰ Anshu Siripurapu, “What is the Defense Production Act?”, Council on Foreign Relations, 22 December 2021, <https://www.cfr.org/in-brief/what-defense-production-act>.

¹⁵¹ Tony Bertuca, “DOD wants to include UK, Australia in new Defense Production Act investments”, *Inside Defense*, 18 May 2023, <https://insidedefense.com/share/218028>.

¹⁵² Jason Willick, “Blow up the microchips? What a Taiwan spat says about U.S. strategy”, *The Washington Post*, 12 May 2023, <https://www.washingtonpost.com/opinions/2023/05/12/microchips-us-taiwan-strategy/>.

¹⁵³ Rintaro Tobita, “U.S. to extend China chip export waivers for Taiwan, Korea chipmakers”, *Nikkei Asia*, 24 August 2023, <https://asia.nikkei.com/Business/Tech/Semiconductors/U.S.-to-extend-China-chip-export-waivers-for-Taiwan-Korea-chipmakers>.

¹⁵⁴ “Key Taiwan Tech Firms Helping Huawei With China Chip Plants”, *Bloomberg News*, 4 October 2023, <https://www.bloomberg.com/news/articles/2023-10-03/taiwan-tech-companies-are-helping-huawei-build-a-secret-network-of-chip-plants?sref=p8neHW1G&leadSource=uverify%20wall>.

there are no disruptions to global semiconductor supply chains should be explored, including securing alternative rare earth supplies needed for chip manufacturing, blocking CCP attempts to secure UK semiconductor manufacturers and encouraging Taiwan to better restrict the export of chips to the PRC for use in PLA military modernisation.

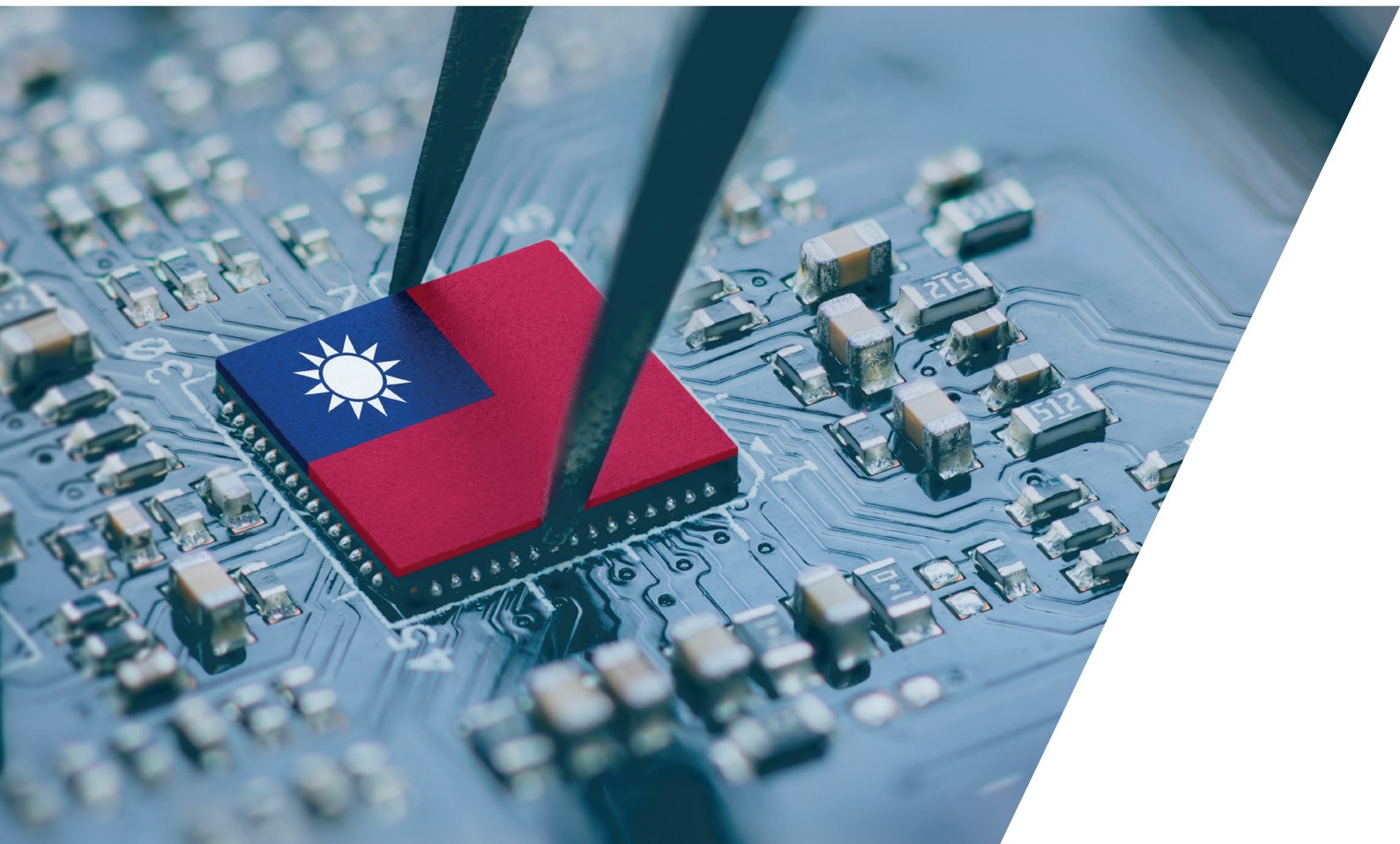
5. The UK should limit capital outflows to key sectors of the PRC, restricting outbound British investment – including pension funds, endowments and other capital outflows – to prevent further subsidising of the PLA’s military modernisation, which better enables the CCP to force reunification with Taiwan.
6. The UK should work with its closest allies and Indo-Pacific partners to communicate to Beijing which PRC provocations toward Taiwan would impact British national interests and therefore be considered red lines, including PRC cyber-attacks and/or naval blockades which would cripple international commerce, or occupation of Taiwan’s off-shore islands which would be the precursor to forced reunification. The Government should clearly and unambiguously articulate that any attempts by the PRC to forcibly disrupt the cross-Strait status quo or end Taipei’s self-governance would result in a reassessment of London’s relationship with Beijing and lead to severe policy consequences.
7. Parliament should exercise caution in its designation or interpretation of Taiwan’s sovereign status, as the existing status quo between Beijing and Taipei currently serves UK national interests. The fragile status quo in cross-Strait relations allows Taiwan to maintain its self-governance, prevents the CCP’s subordination over Taipei and helps minimise Beijing’s efforts to force reunification. Encouraging Taipei to declare premature *de jure* independence would unnecessarily cross PRC red lines and threaten economic security interests of the United Kingdom and its closest trading partners.
8. British International Investment, along with the UK’s other Blue Dot Network steering committee partners (US Development Finance Corporation, Australia’s Department of Foreign Affairs and Trade, the Japanese Bank for International Cooperation and Spain), should work with Taipei and encourage an allocation of Taiwan’s foreign currency reserves to a sovereign wealth fund to be used for funding regional infrastructure development projects.
9. As a member of CPTPP, the United Kingdom should continue to advocate for Taiwan’s inclusion in the trade pact. The Secretary of State for Business and Trade and her Ministers should promote the benefits of the UK’s membership, explaining to the British people that the trade organisation provides wider strategic benefits to the UK alongside economic growth, such as secured supply chain and other economic security objectives in line with the UK’s Indo-Pacific tilt.
10. Despite the PRC’s continued aggression in the Taiwan Strait, including repeated excursions into the ADIZ and crossing the Taiwan Strait median line, the UK Government should maintain clear deconfliction lines between the PLA and the British Armed Forces to avoid the potential for miscommunication and/or misunderstandings which could result in unwarranted aggression toward Royal Navy vessels traversing the Taiwan Strait. In addition, the UK should use its influence with the PRC and China’s regional trading partners to ensure military-to-military communications between Washington and Beijing are maintained.

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